

20.02 Fund Types

Government activities are not all accounted for using the modified accrual method. Some activities closely resemble the activities of private businesses and use accrual accounting. A **self-balancing set of accounts**, known as a **fund**, is established for each category of activity.

Three Categories of Funds

There are 3 broad categories of funds, and these contain **11 fund types**:

- **Governmental Funds** – Generally have a budgetary focus and the main emphasis of reporting is the sources, uses and balances of *current financial resources*. These are for activities that are primarily funded by taxation or other mandatory payments and are virtually unique to government. **Modified accrual** accounting is used.
- **Proprietary Funds** – Generally have an operations orientation and the main emphasis of reporting is determining income, financial position, changes in financial position, and cash flows using the economic resources approach. These are for activities that are primarily funded by voluntary payments for goods and services by users, and that resemble businesses. **Accrual accounting** is used, in a virtually identical fashion to private businesses.
- **Fiduciary Funds** – Generally are oriented toward the accounting for assets and the main emphasis of reporting is net position and changes to net position using the economic resources approach. These are for activities that most closely resemble not-for-profit organizations, including trusts and agency activities. The trust and custodial funds use **Accrual accounting**.

Five Governmental Funds

- **General** – This fund accounts for and reports any activity or function by the government unit that is not being accounted for in another fund, such as general operations, public safety, public works, culture and recreation. Revenue sources include income, sales and property taxes, fees, fines, licenses, permits and grants. Unassigned fund balance.
- **Special Revenue** – These funds are used to account for and report specific revenues from *earmarked* sources that are restricted or committed to be used to finance designated activities other than Capital Projects and Debt Service. An example is a gas tax that finances repairs and maintenance of the roads. Revenue sources include fees, grants, specific taxes and other earmarked revenue sources. Restricted or committed fund balance.
- **Capital Projects** – These funds account for major acquisition or construction activities of capital assets, other than those financed by proprietary or trust funds. This fund accounts for and reports the financial resources that are restricted, committed or assigned for these types of capital outlay. An example is the construction of a city hall, convention center or a county courthouse. Revenue sources include special tax revenues, proceeds from bonds, transfers or capital grants.
- **Debt Service** – This fund is responsible for accumulating and making interest and principal payments on the tax-supported debts of the governmental funds. The DSF accounts for and reports the resources that are restricted, committed or assigned for this long-term debt

purpose. The expenditures may also include premiums on issuance of bonds. Revenue sources include portions of property taxes and transfers.

- **Permanent** – These funds account for and report assets whose principal is restricted and may not be spent (nonexpendable fund) but must be invested permanently (the income is, however, spendable/expendable—endowment fund). Investments are reported at their fair values, with a few minor exceptions as per GASB 72. Revenue sources are usually from the investment earnings of the trust.

A government unit must have one general fund, but can establish as many special revenue, capital projects, and permanent funds as needed to account for the various activities that fit these categories. A debt service fund is only needed if the entity issues general obligation debts.

Two Proprietary Funds

- **Internal Service** – These funds render services or provide goods to other funds within the government entity, charging the other funds directly for those services. An example is a maintenance dept, IT dept, janitorial dept or a motor pool. Revenue sources include billings for services, grants and interest earnings.
- **Enterprise** – These funds account for activities financed by voluntary payments for goods and services rendered to the payers. Often a user fee is paid. Examples include city-operated water utilities, airports, transit systems, public hospitals, public universities, public housing, lotteries or post offices. Revenue sources include charges for services, interest and investment income, shared revenues (property or gas tax) and transfers in.

A government will establish as many enterprise and internal service funds as needed to account for activities that fit these descriptions. Although it is acceptable for these funds to receive some tax money, the majority of revenue must be earned from sales of goods or services.

Four Fiduciary Funds

- **Pension trust** (and other employee benefits) – These account for government employee pensions and other post-retirement benefits for which the government is trustee. 2 RSI schedules are required: Funding progress & employer contributions.
- **Investment trust** – These account for pooled resources that are being invested on behalf of multiple government entities for which this specific government entity is trustee.
- **Private purpose trust** – These account for resources that are being held for the benefit of private persons or organizations or other governments. Examples include a fund to hold cash for unclaimed tax refunds or escheat property as well as a scholarship fund. Could be expendable or nonexpendable.
- **Custodial** – These account for collected amounts that must be transferred to other funds or outsiders. An odd characteristic of custodial funds (formerly referred to as *agency funds*) is that all of the assets held belong to others (held in a custodial capacity), so assets always equal liabilities, and the custodial fund has no equity section at all. Examples include special assessments and the property tax assessor.
 - Special assessment (streetlights, sidewalk)
 - Government obligated – capital projects or debt service fund
 - Government NOT obligated – Custodial fund

Fiduciary funds account for resources held by a government in a trustee or custodial capacity for other entities.

- All **trust funds** make use of the **economic resources measurement focus** and the **accrual** basis of accounting in the same way as proprietary funds.
- **Custodial funds**, however, are a bit atypical in that they only report assets and liabilities. Accordingly, custodial funds do not report equity and do not utilize measurement focus but do employ the **accrual** basis of accounting to recognize assets and liabilities.

Summary

The **modified accrual** funds are (**PD-Consents-to-Smoking Grass**):

- Permanent
- Debt service
- Capital projects
- Special revenue
- General

The **accrual** funds are (**I-PIPE-Constantly**):

- Internal service
- Pension trust
- Investment trust
- Private-purpose trust
- Enterprise
- Custodial